Recap of Secretary Fain's Remarks
To the Joint Select Committee on Economic Development Incentives
February 27, 2008

Members of the Committee:

- Thank you for the opportunity to share some thoughts about a context for discussing economic development incentives. I will be happy to answer questions after my remarks.

- I understand from Cindy Avrette the focus of this meeting is the state's role in economic development. I welcome that focus even though I know you're primarily looking at financial incentives – which are only a part of economic development.

- Further, my charge was to address these topics: our mission as the state's lead economic development agency; our implementation of strategies; and performance measures. I'll address those topics in the broad context of economic development, which we define, not as recruiting and retention, but as the implementation of a set of long-term strategies that develop North Carolina's capacity for economic growth and strength.

- And I think of financial incentives as "investments", and financial incentives are but one type of investment we make to implement economic development strategies.

- I've also asked representatives of two of our key economic development partners to join me in talking about the very fundamental economic development investments N.C. makes in their realms.

- So let me begin with our mission …

<u>Commerce's Mission: Improve Economic Well-being, Quality of Life</u>

- The mission of the Commerce Department is to improve the economic well-being and quality of life for all North Carolinians.

- Our vision is a state of well-educated people trained to do the work of the 21st century and to think critically – to solve problems and innovate – to develop new ideas to drive productivity, design products, birth entrepreneurial enterprises and, ultimately, create jobs.

- To implement our mission and to achieve the vision, we foster execution of North Carolina's comprehensive Economic Development Strategic Plan, as developed by the North Carolina Economic Development Board.

- The Plan is organized under the following long-term strategies:

  - Develop an Outstanding Education System and a Highly Qualified Workforce.
  - Invest in Science, Technology, and University Outreach.
  - Ensure a Competitive Environment for the Recruitment and Retention of Business, Capital Investment and Jobs Creation.
  - Create Strong Metropolitan Growth Centers that Generate Regional Business Development, Shared Prosperity and a High Quality of Life, in Partnership with Surrounding Areas.
  - Develop Thriving Rural Areas That Maintain a High Quality of Life.
  - Develop a Competitive Regionally Based Infrastructure and Promote Sustainable Economic Development.
  - Maintain and Strengthen Tourism, Film, and Sports Industries; Preserve, Protect, and Promote Our State's Cultural, Natural, and Heritage Assets.

- Commerce is organized to help implement these strategies, and we work with many partners in this effort.

- Commerce's role is to run programs and provide services, but also to serve as convener, or advocate, or collaborator with other agencies.

- Implementation, then, for us would include working with or on behalf of other partners, because in economic development, everything matters: workforce development, community colleges, universities, Golden LEAF and other nonprofits, cultural resources such as the North Carolina Art Museum, infrastructure assets such as our road system – and, certainly, pre-school and K-12.

- Our state has been making investments in these fundamentals of economic development since 1795, when we opened the nation's first public university.

- And we are not relying on investments in financial incentives in lieu of these fundamental investments that differentiate our state.

- Our presentations and promotional materials focus on the state's investments in education, workforce development, infrastructure, innovation, business climate and quality-of-life assets – not on financial incentives. In fact, it's only in this decade that we've increased our investment in financial incentives to augment our fundamental investments.

- I'll talk about this evolution in a moment, but first, I've asked two of our key economic development partners – Leslie Boney, Associate VP for Economic Development Research, Policy and Planning with the UNC System and Willa Dickens with the N.C. Community College System – to join me today in talking about the kind of incentives – or investments – we've built our economy on for years.
- (Mr. Boney and Ms. Dickens speak.)
- I asked Leslie and Willa to present today to put a sharp point on the fact that our bedrock incentives – or investments – are in tools such as education and worker skills and research collaborations.

<u>Performance-Based Incentives Aid Competitiveness, Serve as "Tie-Breaker"</u>

- The State of North Carolina has not lost its compass about what is crucial to recruiting and retaining good jobs. We continue to compete by investing heavily in education, infrastructure, innovation and quality-of-life assets, just as we have for over 200 years.

- Fifty-eight percent of our budget goes to education and you have increased these investments even in challenging budget times.

- So we are not confused about what gets our state on the short list for recruiting and expansion opportunities. But as the world has changed, we've realized that we also need to be prepared to compete with well thought-out, performance-based incentives, which can be a tie-breaker in winning good jobs. As more places around the world are able to offer the essentials necessary for a company's project to be successful – more and more, the company's decision boils down to the economics of the project in competing locations.

- Incentives can improve the economic competitiveness of a state's proposal and can make the winning difference – at a time when our economy is facing an unprecedented set of economic challenges and at a time when we are building the new clusters of the 21st century to replace jobs in labor-intensive manufacturing.

- It's important that our state have the option to compete – not just based on education and quality workers – but also with incentives when it can help us win good jobs.

Changing 21st Century Economy: Fewer Projects & Jobs = More Global Competition

- For a long time, North Carolina was extremely successful in garnering jobs with a minimal amount of reliance on incentives. I think it's fair to say we were a leader in the economic development world – certainly in the South – because we were seen as a progressive state that valued education, had strong workplace training and a fine quality of life.

- Gradually the competitive landscape began to change. Some say that we first realized how incentives could make an impact when we lost Mercedes to Alabama in 1993.

- So, what changed that made incentives more important to our competitiveness? Obviously, I've alluded to one – the use of incentives by others. And I am not talking just about neighboring states. Some of the most aggressive incentives are offered by governments in foreign countries. But what else changed the competitive landscape?

- Advances in productivity, for one thing. For years we've been producing more output in our state with fewer workers, and that's true globally. Labor is being replaced by very efficient capital and the use of technology. Therefore – simply put – there are fewer projects offering fewer jobs.

- Those same advances in technology – particularly in information and communications technology – and advances in logistics – have made it possible for offshore locations that wouldn't have been feasible in the past to be considered now for projects. Companies are able to consider lower cost geographies because of these advances.

- So, other things being equal, we have fewer projects with fewer jobs being sought by both onshore and offshore locations.

- Finally, we've seen our neighboring states become much more competitive – not just by using incentives – but in some respects by emulating North Carolina. North Carolina pioneered workplace training programs in 1958 and refined those important competitive tools. Other states, noting our success, have created competitive, well-resourced training programs often comparable to our own – diminishing our competitive advantage. They've invested in ports and airports and put lottery money to work offering college scholarship programs. They've become more competitive.

- These shifts have happened against a backdrop of changes in our trade policies – which have accelerated job losses in manufacturing. We've had a net loss of 203,000 manufacturing jobs since 2001. As we've been slugging through this transition – disproportionately impacting our legacy industries of furniture and textiles – and as we are trying to establish the new clusters of the 21st century in our state, it has been important that we not be at a competitive disadvantage regarding incentives.

- With your support and that of the governor, we've put in place prudent, performance-based programs – programs that only provide benefits when new jobs or investments have been created – and it has made a difference.

<u>Discretionary Incentive Programs: One North Carolina Fund, JDIG</u>

- I'm going to focus on two of our discretionary incentive programs: the One North Carolina Fund and the Job Development Investment Grant program, which have had a major impact as we've transitioned our economy.

- One NC was in place well before 2001. The program helps expand and recruit quality jobs in high value-added, knowledge-driven industries. It consists of nonrecurring appropriations made by the General Assembly for companies seeking to expand or locate new operations in the state. Location or expansion must be in competition with another location outside the state, the company must meet or exceed the average county wage, and wage test. Local government(s) must provide a match.

- In 2001, we entered what I call the "perfect economic storm" – the contemporaneous negative impact of China's accession to the World Trade Organization and the cumulative effects of trade policy changes, a manufacturing-led recession, a bear market, the dot.com bust and the psychological and economic tragedy of 9/11. And North Carolina was facing a $1 billion budget shortfall.

- Despite those challenging conditions, Governor Easley sought and you approved a $15 million appropriation for One NC, which had previously been $1 million.

- Since 2001, we have awarded 256 grants; of those, 48% have gone to North Carolina companies seeking to expand.

- In late 2002, the Governor sought and you created the JDIG program. This is also a performance-based grant that provides annual grants for terms of up to 12 years to expanding and new businesses measured against a percentage of withholding taxes paid by new employees.

- Projects must be consistent with state and local economic development goals and meet stringent criteria, including wage standards and health benefits.

- The first grant was awarded in May 2003, and this program has been a "game changer."

- Seventy-one JDIGS have been awarded through the end of February. Of those, 60% have been awarded for expansions by companies operating in North Carolina.

- The JDIG program also generates money for the state's Industrial Development Fund, which helps less prosperous counties prepare for economic development.

- A couple of important notes about the One NC and JDIG grants:

- The grants are performance-based. Companies must meet or exceed their job-creation targets to receive the grant funds. Companies provide Commerce with payroll data to verify jobs created.

- If the company fails to meet grant terms, it receives either a reduced percentage of the grant funds reflecting the percentage of jobs created, or no funds at all.

<u>Performance Measures: New, Well-Paying Jobs & Investment</u>

- We look at many indicators, but focus on new, good jobs created and new tax base-generating investment:

    - Since January 2001, the One NC fund has induced 28,000 jobs at or above county averages and investment of $4 billion.

    - Since the first JDIG grant in 2003, the program has induced 27,000 jobs, generally at very good wages – and in our targeted industry sectors, which I'll address shortly. The JDIG program also has induced investment of $4.2 billion.

    - The grant awards are generally well distributed across the state.

<u>Macro Performance Measures: Job & Employment Growth Since 2001</u>

- Finally, let me report on aggregate job growth and employment levels since 2001, as macro performance measures:

- That "perfect economic storm" in the early part of this century had a disproportionately harsh impact on North Carolina's legacy manufacturing industries, especially in furniture and textiles.
  - In 2001, North Carolina ranked fourth among the states in terms of the percentage of our non-farm employment working in manufacturing – at 18.1%. We now rank eleventh at 13.1%. By the end of 2007, we had lost 203,000 manufacturing jobs.

  - As that economic storm took hold in 2001, we lost 106,000 non-farm jobs by December and our unemployment rate rose from 4.4% to 6.8%.

  - Many of you will remember when we reached our economic "bottom" in July of 2003, when Pillowtex closed, putting 4,300 employees out of work <u>in one day</u>. We had lost a total of 177,000 jobs at that point and unemployment peaked at 7.1%.

  - From that low ebb, we began to get traction from the fundamental soundness, diversity, and resilience of our economy and started growing jobs as the cycle improved. The hard choices you made in the 2001 session at the Governor's request to make investments in education – and in new incentives – had a positive impact. It's interesting to note that the first JDIG was made in May 2003

  - By October 2005, the 177,000 jobs had been replaced and we got back to where we were in January, 2001. From that point, we added 189,000 jobs by year end, 2007. In other words, since the low point in July, 2003, we added 377,000 jobs – or an average of 82,000 annually.

  - In 2007, North Carolina was fourth nationally in job growth, behind Texas, Florida and California. Unemployment was at the national average of 5%.

  - Our goal has been to replace old economy lost jobs with new, well-paying knowledge-based jobs of the 21st century. To do so, we have focused on industry sectors likely to bring those kinds of jobs – industries such as aviation/aerospace, life sciences, information and communication technology, financial services, automotive and plastics/chemicals.

  - And we have been very successful, thanks in part to financial incentives/investments – as well as investments in education, workforce development, infrastructure and quality-of-life assets.

  - The story of our successful transition from a 20th Century economy based in agriculture and labor intensive manufacturing to today's employment base anchored more and more in knowledge-driven, capital-intensive, technology-enabled firms is illustrated by the results of the JDIG program; 81% of the jobs induced to date have been in our targeted sectors.

- Since inception, that program has induced 27,469 jobs, of which 22,300 have been in our targeted industries – which are characterized by good, sustainable jobs – jobs that make economic sense onshore in a competitive global economy.

- For example, 20% of the jobs have been in advanced manufacturing, 15% in life sciences, 15% in information and communications technology, 7% in aerospace, 10% in financial services, 4% in automotive and 10% in headquarters/research operations.

- So, in conclusion, I would say that North Carolina, having faced the “100 year flood” of economic challenges at the beginning of this decade, has made remarkable progress in recovering and moving ahead. We’ve replaced and grown jobs at an impressive pace and continued to transition our economy to a more sustainable, competitive employment base. And I think it’s accurate to say we’ve met the challenge of the “perfect economic storm” more successfully than other states which faced the same circumstances.

- In terms of performance measures, it’s difficult to know what role financial incentives played in this strong job growth and economic transformation. Clearly, the investments North Carolina has made in education for over 200 years, as well as in infrastructure and quality-of-life assets, continues to be central to our success. I’m very comfortable, however, in saying to you that adding more potent discretionary incentives to our portfolio of job creation investments has made a material difference in our results. My colleagues and I remember the opportunities we were losing before the turn of the decade, and before we had an efficacious, performance-based incentives tool kit.

- We thank you for supporting our work with these investments.